UK Private Capital Budget Submission 2026

Investing for Growth across the United Kingdom

Introduction – the importance of private capital in the UK

Ahead of the Government's Budget on 28 October 2026, UK Private Capital is pleased to share its recommendations to help deliver on the Government's ambitions to deliver growth in every nation and region of the United Kingdom.

UK Private Capital represents UK-based private capital, as well as the wider ecosystem of professional advisers and investors. This includes 600 firms across the private equity and venture capital industry, which make long-term investments to grow British businesses, and private credit and venture debt providers, which provide debt finance and strategic support to businesses.

The UK has the largest private capital ecosystem in Europe, approximately twice the size of the next largest centre, with a strong presence in London, Manchester and across the nations and regions. This is a significant competitive advantage for our economy and supports growth across the country. To power that growth, the industry has a consistent track record of raising approximately 90% of the capital it deploys from international institutional investors, amounting to £25bn in 2025.

The industry backs 13,000 UK businesses, nine in ten of which are SMEs. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP. Private capital plays a role in the growth of every nation and region of the UK, with over half of those 13,000 businesses based outside London. In 2025, more than £11bn was invested outside London.

Private capital supports businesses throughout their growth journey. Venture capital and growth investors provide the long-term funding needed to transform innovation into commercially viable businesses, while growth capital and private equity investors help established businesses expand, improve productivity and enter new markets. Together, they provide the capital, expertise and support businesses need to grow.

Beyond providing capital, private capital firms bring operational expertise and long-term support to the businesses they back. Through active ownership, investors help businesses modernise systems, improve data readiness, develop workforce skills and embed artificial intelligence into day-to-day operations.

Growth capital and mid-market private equity firms play a particularly important role in this process. These firms back ambitious SMEs, often outside London, helping businesses improve productivity, strengthen management capability and adopt new technologies. These firms help companies become more competitive, enter new markets at home and abroad, and embrace the opportunities of innovative technology and the energy transition.

Many of these businesses are deeply rooted in their local economies, supporting jobs, investment and growth across the UK's nations and regions. These companies are part of the re-wiring of the real economy across the UK.

This Budget comes at a critical moment. Businesses and investors are making long-term decisions about where to invest, hire and grow. Investors in the UK and in the rest of the world will look to this Budget for a steer on the direction that this Government intends to take.

The Government should use this Budget to send a clear signal that the UK remains a competitive, stable and attractive destination for capital, entrepreneurship and innovation. In particular, it should avoid further changes to Capital Gains Tax and carried interest taxation, providing investors and entrepreneurs with the confidence to invest, build and scale businesses in the UK over the long term.

The Government's central mission is good growth in every postcode. Private capital helps deliver that mission by providing businesses with the capital, expertise and long-term support they need to start, scale and grow. Therefore, alongside tax stability, the recommendations in this submission are measures that we believe will help to drive up investment and growth across the nations and regions of the UK.

The UK private capital industry manages substantial pools of capital, with around £207 billion of funds available for investment ("dry powder") as of the end of 2025 and expected to be deployed over the next three to five years.

However, the UK continues to face a structural challenge in mobilising sufficient domestic capital to support business growth at scale. Pension reform and a strengthened British Business Bank can help address this challenge by increasing the flow of long-term capital into productive investment across the UK's nations and regions.

The imperative is to ensure the UK remains one of the most competitive and attractive places in the world to raise, manage and deploy private capital, and to deepen the domestic capital base that underpins future investment.

To help deliver growth in every postcode, UK private capital recommends the following:

1. International Competitiveness, Tax and Regulation: *Creating the Conditions for Investment Across the UK*

- Provide long-term tax stability by avoiding further changes to Capital Gains Tax and carried interest taxation.
- Strengthen the UK's competitiveness for internationally mobile talent.
- Ensure growth businesses can access key investment incentives, including the Annual Investment Allowance, R&D tax credits and Enterprise Management Incentive (EMI).
- Reduce tax complexity and simplify compliance and reporting requirements.

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- Continue delivering proportionate, predictable and pro-growth regulatory reform.
- Improve the efficiency, predictability and targeting of the National Security and Investment (NSIA) regime.

2. Pensions and Public Financial Institutions: *Unlocking More Capital for Businesses Across the UK*

- Increase funding for the British Business Bank to allow them to sustain and build on the current pace of investment.
- Implement NOVA to increase pension investment into UK venture and growth capital.
- Establish a British Business Bank fund-of-funds for pension investment into smaller venture and growth funds.
- Expand British Business Bank investment into lower mid-market private equity funds.
- Support the successful rollout of the UK Scale-Up Fund.

3. Business Growth and Innovation: *Helping Businesses Start, Scale and Stay in the UK*

- Introduce Scale-up Reinvestment Relief to recycle capital and hard-won expertise into growth investment.
- Modernise EIS and VCT rules to support growing businesses.
- Strengthen support for university spin-outs and commercialisation.
- Improve the effectiveness and administration of R&D tax relief.

International competitiveness, tax and regulation

Creating the conditions for investment across the UK

To continue delivering growth across the UK, the country must remain an attractive destination for investment, entrepreneurship and innovation. Capital and talent are highly mobile, and competition for both continues to intensify. For private capital to back businesses throughout the UK's nations and regions, the UK must remain a competitive and predictable place to raise, manage, and deploy investment capital.

A competitive investment environment underpins the success of thousands of businesses across the UK that rely on private capital to fund expansion, drive innovation, and create jobs.

The Government should therefore use the Budget to send a clear signal that the UK is a competitive, stable and attractive destination for capital, entrepreneurship and innovation. In a highly competitive global investment environment perception matters as much as policy. Continued signals from Government that the UK is open to investment, innovation and business growth will be important in reinforcing the UK's attractiveness relative to competing international destinations.

Ensure competitive taxation rates

The wider UK tax environment for private capital has worsened overall compared with competitor jurisdictions. A succession of recent tax changes, including to carried interest, entrepreneurs' relief, non-doms and Capital Gains Tax rates, have reduced the UK's attractiveness in a fiercely competitive global market. Meanwhile other countries, including Belgium, Luxembourg, Greece and Hong Kong, continue to improve their tax offering in an explicit bid to attract private capital investment into their domestic economies.

The priority should now be stability. UK Private Capital urges the Government to avoid further changes to Capital Gains Tax or carried interest taxation and provide stability and predictability across the wider tax environment.

Far-reaching changes to Capital Gains Tax would send a further signal that the UK tax system is not competitive or predictable and is no longer the best place to build and scale a business. The UK's international competitors generally recognise the difference between capital and income through separate tax treatment. Equalising Capital Gains Tax rates with income tax rates would make the UK an extreme outlier internationally, and would actively discourage entrepreneurial risk-taking, investment and business creation.

The Government could swiftly act to increase the UK's competitiveness by ensuring growth businesses can access key investment incentives, including the Annual Investment Allowance, R&D tax relief and the Enterprise Management Incentive (EMI). This will help to ensure we remain an attractive destination for investment in relation to EU competitors.

Recent reforms to public markets frameworks have reduced frictions, but a further mix of changes would help to secure the UK's competitive advantage. These include the removal of stamp duty on shares, recognition of private equity structures in the Takeover Code, and above all more coordinated promotion of UK markets as competitive and compelling.

Reduce tax complexity and the burden of compliance

An increase in UK tax compliance and reporting complexity has increased the cost and time burden on both firms and individuals. In addition, some recent changes and proposals, including those relating to uncertain tax positions, close companies and tax adviser registration, risk imposing significant additional compliance burdens.

Changes to compliance and reporting must be proportionate and flexible and recognise and enable different ways of doing business if the UK is to remain globally competitive. It is also critical that technical changes are subject to meaningful consultation with stakeholders, so that the real world impacts are fully understood and unintended consequences are avoided.

Other countries offer generous tax regimes for incoming talent. The new “foreign income and gains” (FIG) regime from April 2025 lasts for a shorter period than the equivalent offerings by key competitor jurisdictions, and so is less attractive. The UK should improve its offer to attract highly-skilled talent to come to the UK and drive the growth of UK businesses.

Predictability of taxation is also of core importance to investors and businesses. As we have recently heard from our members, even speculation about a possible "spin out exit tax" for businesses emerging from universities causes apprehension among investors and those helping startups and scale-ups to raise capital. Similar concerns were raised in the lead-up to the 2025 Budget, during which speculation over decisions impacted perceptions of the UK's tax competitiveness.

Our data shows that when private capital investment professionals are based in the UK, they invest more in UK-based companies. Maintaining a competitive tax environment is therefore crucial to ensuring that capital continues to be raised, managed and deployed in the UK, supporting investment into innovative and productive businesses throughout the country's nations and regions.

Continue Regulatory Reform

The Government's focus on regulation as an enabler of growth is welcome. A proportionate regulatory regime helps ensure that private capital firms continue to choose the UK as a base for investment activity and so it is vital that this positive momentum is maintained.

Reviews of key frameworks affecting private capital, including the Alternative Investment Fund Managers Regime (AIFMR), Investment Firm Prudential Regime (IFPR), regulatory reporting, remuneration and prudential requirements, should focus on ensuring that the UK's regulatory framework supports innovation, investment and the international competitiveness of UK financial services.

More broadly, Government should build on regulators' growth objectives to ensure that a growth and competitiveness mindset is at the heart of regulatory decision-making. The UK's regulatory and competition institutions should focus on delivering predictable, pro-innovation regulation that establishes stable and proportionate frameworks so investors and businesses can plan with confidence.

Improve the National Security and Investment Regime (NSIA)

The National Security and Investment (NSIA) regime remains important for protecting national security, but it must also be targeted, proportionate and predictable.

The Government has set out ambitious goals for investment in growth-driving sectors across the economy. To support this ambition, the NSIA regime should continue to strike the right balance between protecting national security and encouraging investment into innovative businesses and strategic sectors.

The Government should continue its efforts to reduce unnecessary burdens on low-risk transactions and ensure the regime does not impede investment into growth-driving sectors. Narrowing the scope of the regime where appropriate, refining sector definitions and improving the efficiency of the notification process would help support investment while maintaining strong national security protections.

Pensions and public financial institutions

Unlocking more capital for businesses across the UK

UK Private Capital data shows that, on average, sixteen times more pension capital from around the world goes into UK private capital funds than UK pension capital. Despite commitments through the Mansion House Compact and Mansion House Accord, investment into UK venture capital and growth equity funds remains limited.

Unless this trend is reversed, the UK will continue to struggle to scale growing and ambitious businesses across the nations and regions of the UK, and UK pension savers will continue to miss out on returns enjoyed in other countries.

To generate growth and deliver higher living standards across the UK, there must be greater investment by UK pension schemes into private capital funds, which can then be invested into innovative and productive UK businesses.

Growth capital and lower mid-market private equity funds are a particularly important part of this story. In the past four years they have invested more than £30bn into UK businesses. These firms often back SMEs outside London, helping them improve productivity, strengthen management capability and adopt new technologies.

Lower mid-market funds in particular have a wider footprint beyond the capital and play an important role in the North of England, the Midlands and Scotland. Their knowledge of regional markets and sectors enables them to provide support that is both practical and tailored.

The companies they back are part of the re-wiring of the real economy across the UK. Government should therefore focus on mobilising more domestic capital and ensuring it reaches innovative and productive businesses throughout the country's nations and regions.

The September 2026 Reports of our Pensions and Private Capital Expert Panels, which can be found here: DC Pensions & Private Capital: The State of the Market; The LGPS & Private Capital: An Evolving Landscape, summarise the current challenges and what more needs to be done to ensure both the LGPS and UK Defined Contribution pension schemes can maximise pension savers' returns by participating fully in this UK economic re-wiring.

Published with support and input from the ABI, Pensions UK and leading UK pension schemes, they offer policy, regulatory and industry recommendations that will help translate the promise of the Pension Schemes Act into reality. The following recommendations stem from and build on those reports:

Implement NOVA

A key immediate priority should be the implementation of NOVA, a Government-backed accreditation programme modelled on the successful French Tibi initiative.

UK Private Capital has proposed NOVA as a visible pipeline of investment opportunities for UK pension schemes through a Government-backed accreditation scheme. This would help boost the scale and pace of Defined Contribution pension investment into UK venture and growth capital funds.

However, visibility alone will not be sufficient. As set out in UK Private Capital's Defined Contribution Expert Panel report, the British Business Bank should establish a fund-of-funds structure through the British Growth Partnership to enable greater pension scheme investment into venture capital and growth equity funds, particularly smaller and specialist managers that can otherwise be difficult for pension schemes to access directly.

Together, NOVA and a British Growth Partnership fund-of-funds would provide both the information and investment infrastructure needed to unlock greater pension investment into the UK's venture and growth ecosystem, supporting innovative businesses, scale-ups and productive SMEs across the nation's regions.

Fund the British Business Bank to strengthen the investment ecosystem

The British Business Bank (BBB) is the largest LP investor in UK venture capital and a central pillar of the Government's growth agenda and Industrial Strategy. The BBB have increasingly shown their ability to move at speed and scale funding the VC and Growth funds that back businesses across the UK.

But this progress is at risk if the capital available to the BBB does not grow with their capacity to drive value for the UK economy. They now need the security of a funding position that allows them to maintain and build on this approach.

Ministers and the BBB should have a clear north star: strengthening the UK's position as a leading European and global hub for private capital funds that back SMEs, scale-ups and high-growth businesses. The goal should be a self-sustaining fund ecosystem, supported by deep pools of UK institutional capital and expertise, with the scale required to build the next generation of world-leading UK companies.

The Bank is now able to invest in lower mid-market private equity funds focused on backing SMEs, with a preference for regionally focused funds and those focused on Industrial Strategy sectors. The Government should continue to support this approach as part of wider efforts to address the UK's scale-up funding gap and support growth across the nations and regions. The aim should be for the BBB to contribute towards sustainable funding ecosystems and ensure that they are part of a broader marketplace.

In order to do this, it is vital that the BBB has sufficient funding over the next five years. This will enable them to allocate funding for regional funds and contribute towards resolving the scale- up challenge, thus helping to catalyse more competitive investment ecosystems across the UK.

Support the British Growth Partnership Fund-of-Funds

The British Growth Partnership aims to crowd in investment for high-potential and high-growth businesses by leveraging the Bank's existing network of fund managers and institutional investors.

UK Private Capital supports the British Business Bank's intention to evolve the British Growth Partnership into a fund-of-funds structure. This would create a more scalable and sustainable route for institutional capital to flow into the UK's venture and growth ecosystem, helping to build larger domestic funds capable of supporting businesses through the scale-up stage. It is vital that the BBB have sufficient resources to be able to deliver this.

Support the UK Scale-Up Fund

UK Private Capital welcomes the launch of the UK Scale-Up Fund, being developed by a consortium of UK pension funds in partnership with the British Business Bank.

The proposed vehicle demonstrates the potential for institutional capital to support high-growth UK science and technology businesses and complements wider reforms aimed at increasing pension investment into productive assets. Government should support the successful delivery and rapid deployment of the Fund to maximise its economic impact across the UK.

A coordinated approach to mobilising domestic capital to drive growth in every postcode

Together, NOVA, the British Growth Partnership, the UK Scale-Up Fund and the British Business Bank's wider programmes represent a coherent strategy for unlocking more domestic capital for innovative and productive UK businesses.

Government should view these initiatives as complementary components of a wider effort to increase pension investment into private capital, strengthen the UK's growth capital ecosystem and ensure that more businesses across the nations and regions can access the funding they need to scale.

By mobilising pension capital and leveraging the capabilities of public financial institutions, the Government can help create deeper pools of long-term domestic capital, support business growth in every nation and region of the UK and reduce reliance on overseas sources of growth funding.

Business Growth and Innovation

Helping Businesses Start, Scale and Succeed in the UK

The UK has built one of the world's strongest early-stage ecosystems. As the Chancellor recently argued, the UK's challenge is not generating ideas, but ensuring that more of the businesses, jobs and intellectual property created by British innovation are able to scale in the UK. The Government's focus on investment, innovation and jobs is therefore welcome, as is its ambition to double the number of UK unicorns, deploy dedicated funds to back British innovation and strengthen the scale-up ecosystem. Private capital has a critical role to play in delivering those ambitions, providing the long-term capital and expertise needed to help innovative businesses commercialise research, scale successfully and remain headquartered in the UK.

The UK has world-leading universities, innovative businesses and a strong pipeline of entrepreneurs. It performs strongly in company creation and early-stage investment. The challenge is what happens next.

Too many businesses struggle to access the capital, expertise and support required to scale. Many become increasingly reliant on overseas investors, while barriers to commercialisation, research translation and later-stage funding continue to hold back growth.

Private capital helps bridge the gap between innovation and commercial success. Whether supporting university spin-outs, backing high-growth technology companies or helping established SMEs modernise and expand, private capital plays a crucial role in helping businesses throughout the UK reach the next stage of growth.

Supporting more businesses to start, scale and succeed in the UK will be critical if the Government is to achieve its ambition of growth across every nation and region.

Introduce Scale-up Reinvestment Relief

The UK has built a strong early-stage ecosystem but struggles at the scale-up phase. High-growth companies often lack sufficient domestic later-stage capital and become reliant on overseas investors.

At the same time, experienced founders who possess both capital and hard-won operational expertise face limited incentives to remain economically active in the UK after a business exit. Current policy tools successfully support early growth and reward entrepreneurial risk, but do not encourage the systematic recycling of founder capital and knowledge back into the UK ecosystem.

This weakens the "flywheel effect" in which successful founders build on success, reinvesting capital, experience and ambition into the next generation of high-growth companies in the UK.

UK Private Capital has proposed Scale-up Reinvestment Relief (SRR), which would better align tax incentives with post-exit reinvestment and continued ecosystem participation. SRR would encourage founders, early executives and investors to reinvest UK-generated gains into UK-based scale-ups, UK-focused venture and growth funds, and R&D-intensive companies. Existing tax incentives do not currently deliver this policy objective, due to restrictions on the scope of investments and activities that qualify for relief.

By ensuring that capital, operational experience and ambition are recycled into the next generation of scaling businesses, SRR would strengthen the UK's entrepreneurial flywheel and support growth across the UK's nations and regions.

By encouraging founders and investors to recycle capital and expertise into UK-focused venture and growth funds, UK scale-ups and R&D-intensive companies, SRR would help ensure that the benefits of successful business creation are reinvested into the next generation of businesses across the UK's nations and regions.

Support Early-Stage Investment

The UK's tax-advantaged investment schemes remain a vital part of the ecosystem that supports entrepreneurship, innovation and company formation.

SEIS, EIS and VCTs play an important role in unlocking private capital for early-stage and high-growth businesses across the UK.

However, current company age thresholds can exclude high-growth businesses that remain capital-intensive and far from commercial maturity. The impact is felt disproportionately by regional businesses, which often scale more slowly than businesses in established venture hubs.

The Government should continue to modernise the EIS and VCT regimes by reforming company age limits and addressing technical rules that can restrict follow-on investment. This would help ensure ambitious businesses across the UK can continue to access growth capital wherever they are located.

Strengthen Support for University Spin-outs and Commercialisation

The UK has built a globally competitive university spinout ecosystem. The value of UK university spinouts has tripled since 2020 to around £49bn, with the UK leading Europe in total spinout value creation. At a time when the UK is competing internationally for venture capital, founders and high-growth companies, policy should make these businesses more attractive to investors.

However, speculation about a clawback mechanism for funding provided to spinouts by UKRI or other Government institutions has been very concerning. This would risk weakening an innovation ecosystem that has been a significant UK success story over the past decade. Importantly, only a small proportion of university spinouts currently leave the UK, reportedly around 4%. The policy therefore risks imposing a broad cost on the entire spinout ecosystem in response to a relatively limited problem.

We urge the Government to consider very carefully any potential changes in this area. Such a mechanism could make spinouts less attractive to investors and founders, reduce the UK's competitiveness, and penalise companies that need overseas capital, markets or partners to scale. If the Government does decide to implement such a proposal, it should work closely with our members on the design and implementation to limit the impact as much as possible, maintaining a close eye on the impact they would have on investors. Policy should instead focus on making the UK the best place to start, fund and grow research-intensive businesses.

The Government should continue to strengthen support for spin-outs, innovation clusters and commercialisation and implement the full recommendations from the "Independent review of university spin-out companies (2023) and the "Deepening university-investor links" (2026) reviews. Ensuring world-class research across the UK is supported by access to capital, experienced founders, mentors and commercialisation expertise will enable more regions to develop sustainable innovation clusters and strengthen the UK's ability to translate research excellence into commercial success.

Support Research and Development

Research and development tax relief remains critically important for innovative businesses, particularly before they begin generating revenue.

The Government should continue to support R&D-intensive companies and improve the speed and efficiency of claims processing by HMRC.

Improving the speed, certainty and effectiveness of the R&D framework would help support innovative businesses throughout the UK, strengthen local innovation ecosystems and ensure that more regions can benefit from growth driven by research, technology and commercialisation.

Improve infrastructure and planning to support regional growth

The Government should continue to focus on developing the infrastructure and planning environment needed to support local and regional innovation and investment ecosystems. A place-based approach to economic growth requires transport, energy, digital and commercial infrastructure that enables businesses to start, scale and succeed across all parts of the UK. Strengthening these foundations will improve the UK's attractiveness as a destination for private capital, help regions attract private capital, support business expansion and build sustainable innovation clusters.

National infrastructure will be critical to supporting innovation and the adoption of emerging technologies across the UK economy. Investment in transport connectivity, energy networks, digital infrastructure and strategic growth sites can help unlock the full potential of regional businesses, strengthen local innovation ecosystems and create more opportunities for private capital to support growth. High-quality infrastructure makes it easier for businesses to commercialise research, access talent, reach new markets and scale successfully.

It is also critical that planning processes support rather than constrain investment. Government should continue efforts to accelerate planning decisions, increase planning capacity and ensure that greenfield status does not unnecessarily prevent the development of strategically important business, manufacturing and innovation facilities where suitable alternatives are unavailable. A more timely and predictable planning system, supported by clear infrastructure priorities and a credible long-term pipeline of projects through the UK Infrastructure Strategy and NISTA, would help unlock greater private investment across the UK's nations and regions.